

COST *and* MANAGEMENT

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SHRINKING MARGINS OF PROFIT — A CHALLENGE TO THE INDUSTRIAL ACCOUNTANT

By C. Ronald Jolly 245

A Chartered Accountant, C. Ronald Jolly joined the Internal Audit Department of Lever Brothers Limited Canada as a senior auditor in 1947, and was appointed manager of this Department in 1949. Before going with Lever Brothers he spent some 10 years practising as a public auditor. He has been Chairman of the Educational Committee of the Toronto Chapter of the Institute of Internal Auditors and has taken part in the lectures given at the University of Toronto.

TO-DAY'S PICTURE OF TO-MORROW'S BUSINESS

By Charles B. Allen 254

A graduate of Yale and Columbia Universities, Mr. Allen is Branch Accountant in Waterbury, Connecticut for the American Brass Company. He is a member of the American Institute of Accountants, the N.A.C.A. Chapter in Waterbury, and the New York State Society of Certified Public Accountants. This topic has been released for publication in Cost and Management through the courtesy of the National Association of Cost Accountants.

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SOCIETY NOTES



A. V. (VICTOR) MADGE, R.I.A., F.C.I.S.

OUR NEW PRESIDENT

A. V. (Victor) Madge was elected National President at The Society of Industrial and Cost Accountants' annual convention in Vancouver. A resident of Montreal, the new President

SOCIETY NOTES

is Director and Secretary-Treasurer of Crawley and McCracken Co. Ltd. and Director and Secretary-Treasurer of Murrays' Restaurants Limited.

Mr. Madge has lived in Montreal for a number of years and is well known in business and recreational clubs in the Montreal district. Boy's work, vocational guidance programmes and aiding under-privileged children are some of his major activities. He is the president of the American "A" Little League Baseball Association and a past secretary of the Kiwanis Club of Montreal. He is also a member of the Montreal Board of Trade and Director of the Montreal Branch, Canadian Restaurant Association.

In addition, he is associated with various organizations on a provincial and Canadian-wide scale. He is past Chairman of the Quebec Division of the Canadian Industrial Traffic League, a former director of the Quebec Food Distribution Council and a life member of the Royal Astronomical Society of Canada.

In the interest of science and business, Mr. Madge has lectured and written articles on various topics in these fields. Many of his works have been republished and are still held in high esteem throughout the English-speaking world.

The new president joined the Society of Industrial and Cost Accountants in 1929. He became Chairman of the Montreal Chapter and later, president of the Quebec Society. In 1949 he was elected to the national council.

During his association with the Society, Mr. Madge has always been helpful in his advice and generous with his knowledge of business. He has addressed meetings from coast to coast and written many articles for publication in "Cost & Management".

Mr. Madge was born in Devonshire at Ilfracombe and came to Canada as a boy. Here, he trained as a concert violinist, receiving some of his training at the Toronto Conservatory of Music. His education, during this period, was mainly through a tutor. "You can't go to school and play the fiddle at the same time," says Mr. Madge. A serious ear operation ended his ambition for a career in music and he moved from one job to another trying to find his place in the business world. In 1925 he was employed by Crawley and McCracken. With this company, Mr. Madge showed an aptitude for accounting and finance and by 1944, he became Secretary-Treasurer.

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A Montreal man with nation-wide experience, the new president will do much to further the internal and external prestige of the Society.

REPORT OF THIRTY-FIRST ANNUAL CONFERENCE

The Thirty-First Annual Cost and Management Conference was the first to be held in the Province of British Columbia. In the minds of those who attended from outside the Province, there is now a fervent hope that it will not be the last. The weatherman co-operated with the Conference Committee and displayed to the fullest the scenic grandeur in and about the City of Vancouver.

The Conference Committee under the chairmanship of Tom Kennedy arranged a sparkling programme for approximately 150 members and their wives. Varied and interesting, the programme featured a display of modern business equipment. There was a large attendance on Tuesday morning when President George MacKenzie formally opened the exhibit. From then until Thursday night, there was always a great number passing from one booth to another, to examine the latest developments in office and accounting equipment.

The first business session was a meeting of the Co-ordinating Educational Committee which lasted all day Tuesday. The heavy agenda fully warranted the decision to utilize a full day for this committee meeting instead of a half day as in the past. Although every item of business was very important, it may be worthwhile to relate some of the conclusions reached in dealing with matters of more general interest. Considerable emphasis was given to student turnover, a problem which has been of great concern to the Committee every year. What basic reasons cause students to discontinue their studies, and what could be expected as a reasonable number of failures, were questions for which the committee sought conclusive answers. Members agreed that further investigation was needed and a sub-committee was appointed to make a thorough study of the problem.

At the meeting the Committee also:

Appointed a sub-committee to review the requirements for the Business Mathematics course and recommend a revised syllabus.

Approved a schedule for submitting correspondence

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course assignments, to which all correspondence students must adhere.

Agreed that the annual examinations should be held after May 10th instead of commencing the third week in April. * * *

Wednesday morning, the Directors passed on the Annual Reports which reflected the continued growth of the Society. President George MacKenzie, in summarizing these reports stated:

"By all standards of growth in membership, educational activities, publication output, library service to members coupled with planning and development, the past year has been outstanding and, by standards of loyalty, serious intention at all levels, and usefulness to the Canadian economy, our reputation and stature has reached an all-time high. These results are the culmination of sound planning and effective administration over a period of many years, and the contributions made by our predecessors in all departments are now paying well-earned dividends which we hope will continue indefinitely."

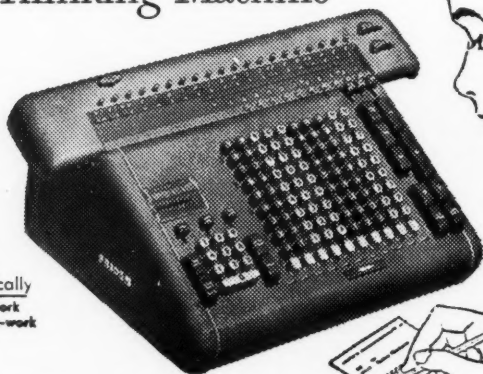
In closing his report, Mr. MacKenzie passed on the challenge—

"Investment in the future of Canada is at an all time high. Our objectives are designed toward beneficial contribution to the management effort required to keep our economy free and strong. To those who say 'what do I get from membership', may I suggest a realignment of thought and purpose so that in future we can all proudly say, 'I helped in the attainment of a worthy goal'." * * *

The Technical Sessions were formally opened on Wednesday afternoon by Donald B. Grant, R.I.A., Secretary-Treasurer of Vancouver Machinery Depot. Mr. Grant introduced the Conference Theme "Managing To-day's Dollar". There was a good attendance at each of the five Technical Sessions. The papers were informative and thought-provoking and every lecture promoted lengthy discussion periods.

The Annual Dinner and Dance, Thursday evening was an outstanding success and a fitting climax to the three day Conference. The guest speaker was Professor Earl D. McPhee, M.A., B.Ec., Head of the School of Commerce at the University of British Columbia. Professor McPhee praised the work of the Society for its part in accounting education and its contribution to the advancement of financial management.

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COST AND MANAGEMENT

Examination Results, 1952

In the 1952 Examinations of the Society, the following students obtained pass standing in the subjects listed:—

ACCOUNTING I

THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF ALBERTA

Bayne, Hugh, Calgary	McAllister, Gordon, Edmonton
Blanchfield, Leo. J., Calgary	McBean, Al., Montgomery
Cornish, H. M., Edmonton	Miller, C. A., Edmonton
Davis, Donald A., Calgary	Morse, C. R., Calgary
de Villenfagne, R. R., Calgary	Moyes, D. I., Calgary
Drayton, J. T., Calgary	Niven, Z. R., Calgary
Enokson, R. W., Edmonton	O'Neil, Kenneth R., Calgary
Foster, V. Alan, Calgary	Purdie, Gordon, Edmonton
Fox, Norman H., Calgary	Redel, Anna E., Edmonton
Frocklage, R. J., Calgary	Rogers, D. E., Calgary
Galloway, D. L., Calgary	Rutter, J. R., Calgary
Granlien, N. Lawrence, Calgary	Searle, W. J., Edmonton
Gregson, J. R., Edmonton	Shea, C. A., Calgary
Hanson, R. W., Norman Wells, N.W.T.	Sherman, A. F., Edmonton
Harding, W. H., Edmonton	Stelmack, A., Edmonton
Hoover, Vivian, Calgary	Stewart, K. C., Edmonton
Hunter, D. O., Calgary	Trewin, E. D., Calgary
Jackson, L. P., Calgary	Upton, A. M., Calgary
MacNichol, R. L. J., Calgary	

THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF BRITISH COLUMBIA

Anderson, W. I., Victoria	Hodson, J. A., Vancouver
Bryan, Douglas C., Vancouver	Houston, W., Vancouver
Buckthorp, W. S., Vancouver	Jolicoeur, A., Vancouver
Chudin, I., Vancouver	Lawrence, J. E., North Vancouver
Denham, George, Vancouver	McCreath, T. D., Vancouver
Douglas, J., Vancouver	Powell, J. R. P., Vancouver
Dunn, Olive E., Vancouver	Shatford, D. A., Vancouver
Fanson, Lloyd, Vancouver	Simpson, J. F., New Westminster
Fee, W. W., Vancouver	Stevenson, T., Vancouver
Fletcher, T., New Westminster	Ternan, Diane, South Burnaby
Griffin, J. C., Victoria	Thomas, V. R., North Vancouver
Henricksen, L. R., Vancouver	

THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF MANITOBA

Allan, C. S., Winnipeg	Howard, S. E., West Kildonan
Beardsley, H. J., Winnipeg	Kivell, L. W., Winnipeg
Bishop, B. W., East Kildonan	Kubas, John F., Winnipeg
Byers, J. P., Winnipeg	Little, A. J., Winnipeg
Carley, G. H., St. Vital	Maple, D. G., Winnipeg
Colclough, John, St. James	Mawhinney, Neil A., Winnipeg
Davidson, C. G., Winnipeg	McCaw, Vera E., Winnipeg
Donnet, D. I., Winnipeg	Middlestead, H. W., Winnipeg
Drudge, W. John, East Kildonan	Pope, A. M., Winnipeg
Feeney, H. J., Winnipeg	Smith, Bruce, West Kildonan
Feller, W., Winnipeg	Sumner, D., Winnipeg
Hay, J. S., St. James	Warkentin, R., East Kildonan

THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF NOVA SCOTIA

Dill, A. H., Halifax	Hodgson, E. A., Dartmouth
Edwards, George C., Halifax	Linkletter, Z., Halifax
Faulkner, K. M., Halifax	Mitchell, R. W., Dartmouth
Glube, Richard, Halifax	Nauss, Edith M., Halifax

COST AND MANAGEMENT

Peckham, Gerald F., Halifax
 Perry, L. W., Halifax
 Richards, George E., Halifax
 Sheehan, Donald P., Bedford

Sisson, Kenneth S., Halifax
 Stewart, H. E., Halifax
 Topp, J. R., Halifax
 Zinck, R. W., Lunenburg

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 Aitkenhead, Andrew, Hamilton
 Anderson, A., Toronto
 Armstrong, R. I., Windsor
 Bailey, R. H., Toronto
 Baxter, Donald H., Windsor
 Bell, F. Ronald, Hamilton
 Benn, Louis W., Preston
 Brown, A. A., Stoney Creek
 Brownsey, M. H., Toronto
 Bunnell, George, Toronto
 Catto, Wm., Ottawa
 Clark, Lynn, Sarnia
 Clifford, Charles, Windsor
 Conlin, W. L., Toronto
 Cooper, Wm. C., Hamilton
 Corbett, F. H., Kingston
 Cramp, D. J., Guelph
 Cunningham, B. C., Hamilton
 Demmans, D., Toronto
 Dennee, Wm., Kingston
 Dennis, P. W., Fort William
 Dewey, Grant C., Port Arthur
 Dorsey, J. H., Fonthill
 Dubinsky, Lydia, Fort William
 England, G. K., Toronto
 Gareau, D. H., Scarboro
 Gilmour, H. M., Toronto
 Greey, D. N., Toronto
 Gwizdak, Walter, Fort William
 Hall, J. M., Toronto
 Hamlin, C., Toronto
 Hansell, Leonard, Hamilton
 Hargreave, Arthur, Hamilton
 Hartley, M. C., Port Arthur
 Hartviksen, Arthur, Port Arthur
 Haugh, Lloyd, Windsor
 Hickey, B. G., Toronto
 Holloway, Miss B. M., Fort William
 Holman, John, Hamilton

Horne, James, Windsor
 Hynds, R. D., Islington
 Janik, Thaddeus, Kitchener
 Jarvis, D., Aldershot
 Johnston, A. J., Toronto
 Johnston, C. R., Toronto
 Joyce, T. E., Hamilton
 Kamibayashi, Fred, Beamsville
 Laing, A. R. H., Port Arthur
 MacPherson, N. R., Toronto
 McCullough, T. J., London
 McDiarmid, W. L., Hamilton
 McLean, Donald, Toronto
 Miller, Alfred, London
 Nevins, Michael, Port Arthur
 Novak, John M., Fort William
 Owens, Milton, Ottawa
 Papiez, S., Hamilton
 Parent, John L., Buckingham, Que.
 Parsons, G. T., Paris
 Porteous, J. D., Hamilton
 Radke, H. E., Toronto
 Shuttleworth, J. T., River Canard
 Sjoback, Miss Bertha, Port Arthur
 Skabar, M., Red Rock
 Smeaton, George, Brantford
 Smuck, F. H., Niagara Falls
 Spencer, L. L., Red Rock
 Taft, Uno, Toronto
 Thornton, A. C., Ingersoll
 Vaitonis, P., Hamilton
 Vetere, Frank V., Toronto
 Vinnels, C. H. M., Hamilton
 Walsh, Lawrence, Hamilton
 Ward, Miss Gladys, Port Arthur
 Ward, G. E., Hamilton
 Woodruff, W. D., Toronto
 Woods, R. C., Clifcrest
 Yeatman, J. C., Toronto

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 Gagnon, Fernand, Shawinigan-South
 Jones, Allen, Cookshire

Metayer, J. R., Verdun
 Park, L. V., Montreal
 Peacock, Cyril J., Drummondville

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 Brecknell, J. W., Saskatoon
 Campbell, Douglas M., Saskatoon
 Carlson, Orville, Saskatoon
 Casey, Ken, Saskatoon
 Gnam, John, Regina
 Graham, Hannah, Regina
 Hampson, G. J., Moose Jaw

Hasselback, R. M., Regina
 Huggett, F. E., Regina
 Jones, W. D., Saskatoon
 Kammermayer, Kathleen T.,
 Regina
 Kennedy, G. C., Regina
 Laird, G. A., Moose Jaw
 Mytroen, H. E., Regina

EXAMINATION RESULTS, 1952

Parker, D. L., Moose Jaw
Paton, N. D., Saskatoon
Potter, D. M., Saskatoon
Scott, D. A., Saskatoon
Slingsby, F. D., Saskatoon

Smith, A. J., Regina
Telfer, J. D., Moose Jaw
Turtle, John, Saskatoon
Williams, K. L., Saskatoon

BUSINESS MATHEMATICS

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Cieslak, Stan., Edmonton
Cyr, D. Z., Calgary
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Drayton, J. T., Calgary
Edgar, Jack, Calgary
Enokson, R. W., Edwonton
Frocklage, R. J., Calgary
Gregson, J. R., Edmonton
Hanna, S. G., Edmonton
Harding, W. H., Edmonton
Lasell, A. M., Edmonton

Locking, Marlin, Calgary
Miller, C. A., Edmonton
Moger, J. A., Edmonton
Morse, C. R., Calgary
Moyes, Donald I., Calgary
Robertson, T. P., Calgary
Rogers, Donald E., Calgary
Sherman, A. F., Edmonton
Sproul, P. R., Peace River
Trewin, E. D., Calgary
Upton, Audrey M., Calgary
Weeks, G. C., Edmonton

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Bryan, D., Vancouver
Chalmers, R. D., Vancouver
Dean, Gordon, Vancouver
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Fee, W. W., Vancouver
Fleetham, D. I., West Vancouver
Floros, Mrs. Mabel, Vancouver
Hart, N. K., New Westminster
Hodson, J. A., Vancouver
Jagger, A. G., Victoria

Jecks, J. D., Rossland
Jones, G. A., Victoria
Luney, Wm., Victoria
Love, E. A., Kelowna
Peet, E. L., Vancouver
Poulos, J., Vancouver
Ritchie, Gerald, Victoria
Sawicki, Jean, North Burnaby
van der Woerd, G. W., Vancouver
Whitelaw, Kenneth M., Fernie
Wood, P. T., South Burnaby

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Carley, G. H., St. Vital
Crook, W. C., Winnipeg
Davidson, C. G., Winnipeg
Donnet, D. I., Winnipeg
Drudge, W. John, East Kildonan
Feeney, H. J., Winnipeg
Hay, J. S., St. James
Howard, S., West Kildonan

Kershaw, William H., Winnipeg
Kivell, L. W., Winnipeg
Little, A. J., Winnipeg
Maple, D. G., Winnipeg
Mawhinney, Neil A., Winnipeg
McCaw, Vera E., Winnipeg
Middlestead, H., Winnipeg
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Walker, D. C., Winnipeg

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Mitchell, R. W., Dartmouth

Murphy, George, Halifax
Mauss, Edith M., Halifax
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Stewart, H. E., Halifax
Zinck, R. W., Lunenburg

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Burns, J., Toronto	McRae, John, Toronto
Chappus, R. J., Windsor	Miller, A., London
Clifford, C., Windsor	Murcott, A. H., Toronto
Conlin, W. L., Toronto	Nevins, Michael, Port Arthur
Cooper, Wm., Hamilton	Nichols, F. J., Toronto
Cramp, D. J., Guelph	Parsons, G. T., Paris
Demmans, David, Toronto	Potter, J. H., Clarkson
Dewey, G. C., Port Arthur	Radke, H. E., Toronto
Edwards, R. E., Brantford	Rauenbusch, R., Toronto
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Farwell, G., Fort William	Shaw, N. A., Windsor
Frederickson, C. F., Toronto	Sheppard, H. A., Preston
Freeman, C. R., Hamilton	Shuttleworth, J. T., River Canard
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Greey, D. N., Toronto	Spencer, L. L., Red Rock
Hall, J. M. C., Toronto	Swan, W. D., Sandwich East
Harris, T. V., Toronto	Taft, Uno, Toronto
Hamlin, C., Toronto	Teasdale, W. B., Guelph
Haugh, Lloyd, Windsor	Vaitonis, P., Hamilton
Hinton, R. E., Preston	Watts, Mary F., Toronto
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Hunter, Ruth, Port Arthur	Woods, R. G., Clifcrest
Hynds, R. D., Islington	

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Groh, Jaroslav, Montreal	Veillette, G., Montreal

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Campbell, K. A., Saskatoon	Price, Ruth, Saskatoon
Carlson, Orville, Saskatoon	Squires, C. H., Wilcox
Casey, Ken., Saskatoon	Wiebe, E. W., Saskatoon
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Haider, A., Regina	Wright, May L., Saskatoon

ACCOUNTING II

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Atkinson, Dorothy, Edmonton	Blanchfield, Leo. J., Calgary
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Birse, W. E., Edmonton	Edgar, J., Calgary

EXAMINATION RESULTS, 1952

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 Hanna, S. G., Edmonton
 Hazlett, G. O., Edmonton
 Hill, R. H., Calgary
 Jackson, H. L., Calgary
 Langton, Mrs. B. M., Edmonton
 MacKay, W. D., Edmonton
 Marshall, R. B., Edmonton
 Maybin, J. E., Calgary

McNeil, F. C., Edmonton
 Millen, G. W., Calgary
 Miller, Howard, Calgary
 Moyes, Beryl, Calgary
 Richards, W. N., Edmonton
 Shove, Gordon G., Edmonton
 Westgate, L. J., Edmonton
 Wiley, E. R., Calgary

THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF BRITISH COLUMBIA

Biglow, Robert D., Vancouver
 Breen, Wm. I., Vancouver
 Broughton, A. G. S., North Vancouver
 Brown, A. W., Vancouver
 Campbell, Darell, Vancouver
 Cooke, Chas. E., North Vancouver
 Dean, Vernan, Steveston
 Elliott, J. D., West Vancouver
 Eltringham, J., Victoria
 French, L. F., Vancouver
 Grant, Kenneth, Vancouver
 Greef, Ivy R., Vancouver
 Greene, R. K., Vancouver

Hart, N. K., New Westminster
 Hosgood, D. G., South Burnaby
 Hyde, Alan W., Vancouver
 Jecks, James D., Rossland
 Johnston, W. L., West Vancouver
 Kibble, S. G., Vancouver
 Lockhart, Keith W., Vancouver
 Love, Elliott A., Kelowna
 Marsden, Eric, Vancouver
 Martineau, B., New Westminster
 Patterson, E. H., Vancouver
 Stashuk, John, Vancouver

THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF MANITOBA

Chapman, C. J., Neepawa
 Cranstone, A. C., Winnipeg
 Goods, J., East Kildonan
 McNabb, William, Winnipeg
 Pile, J. R., Norwood

Tesluk, Ernest, Winnipeg
 Tippet, G. D., St. James
 Turnbull, C. G., St. James
 Wilson, F. R., Winnipeg

THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF NOVA SCOTIA

Atkins, Edwin F., Bridgewater
 Balcom, E. A., Halifax
 Craig, Gerald A., Halifax
 Ferguson, J. F., Timberlea
 Gibbons, R. L. W., Halifax
 Haverstock, Lloyd, Hammond Plains
 Hume, Robert I., Dartmouth

Ivey, C. H., Halifax
 MacCallum, R., Halifax
 Quinn, Donald B., Halifax
 Ritcey, Kenneth H., Halifax
 Tizard, G., Halifax
 Walsh, W., Liverpool
 Zinck, Clyde W., Halifax

THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF ONTARIO

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 Almond, James, Windsor
 Bercovich, Alex, Toronto
 Birkett, E. Roy, Kingston
 Blanchard, Gordon, Hamilton
 Bloomberg, Jack, Toronto
 Bolam, K. W., Toronto
 Bruce, L. A., Niagara Falls
 Buie, Angus L., Fort William
 Coles, D. W., Toronto
 Craig, W. A., Toronto
 Crowley, E. D., Kingston
 Deasy, James R., Toronto
 Denis, G., Ottawa
 Diamond, J., Kingston
 Doupe, B. E., London
 Guttormson, N., Toronto

Hamilton, W., Toronto
 Harding, G. V., Toronto
 Hawksworth, F., Windsor
 Hirst, J. T., Toronto
 Honess, L. H., Toronto
 Howat, Verna, Toronto
 Hull, W. R., Toronto
 Innes, E. J. S., Galt
 Iwamoto, Y., Toronto
 Jackson, Allan F., Windsor
 Johnston, C. R., Toronto
 Kamo, H., Port Arthur
 Kawasoe, Mitsuo, Waterloo
 Kelly, H. E., Ancaster
 King, E. W., Willowdale
 Kose, Paul, Hamilton
 Laidlaw, R. H., Guelph

COST AND MANAGEMENT

Laroche, Marcel, Ottawa
Lewis, Gordon, Sarnia
Little, Edwin C., Windsor
Macklem, Wm. D., Ancaster
Madeley, Doris, Toronto
Murcott, A. H., Toronto
Nichols, F. J., Toronto
Paton, A., Toronto
Penn, Bruce, Hamilton
Pye, K. E., Windsor
Radke, H. E., Toronto
Roenicke, W. J., Fort William
Sabiston, C., Thessalon

Schnarr, Richard, Guelph
Sloan, G. O., Hamilton
Storozuk, Wm., Fort William
Sucharda, Vladimir, Toronto
Turcotte, T., Kingston
Turner, W. W., Hamilton
Usajewicz, J., Toronto
Warden, Wm. G., Hamilton
Willis, W. G., Toronto
Wilson, F. D., Toronto
Wright, W. J., Todmorden
Young, D. W., Port Arthur

THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF QUEBEC

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Collette, Raynald, St. Hyacinthe
Davies, Adrian E., Sherbrooke

Taylor, A. E., Temiskaming
Vachon, Aime, La Tuque
Veillette, G., Montreal

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COST AND MANAGEMENT

◆ C & M ROUND-UP ◆

By N. R. BARFOOT, R.I.A.

CURRENT LABOUR STATISTICS

1st Quarter	
Total labour force	5,210,000
Total employed	5,110,000
Unemployment insurance claims (April)	320,322
Benefits Paid	\$16,891,000
Average weekly wages and salaries (March)	\$ 53.95
Average hourly earnings (mfg.)	\$ 1.28
Average hours worked per week (mfg.)	41.7
Total labour income (millions)	\$846

WELFARE PAYMENTS

	1951	1945
Totals	\$670.5	313.4 millions
Veterans pensions and Benefits	133.4	49.0 millions
Old age and blind pensions and health grants	135.	33.7 millions
Balance in health, hospital relief, etc.	401.6	230.7 millions
Provincial welfare payments (total)	255.5	84.7 millions

COST-OF-LIVING INDEX AND WAGES

The current widespread inclusion of escalator, cost of living clauses in collective agreements across Canada becomes of more immediate interest as the index comes down.

Two sharp decreases since the first of the year have resulted in hourly wage decreases. One formula provides a one cent change per hour for each one point change in the index. A more common formula provides a one cent change for each 1.3 points change in the index.

In most plans wage decreases are not immediately brought about by changes in the index. Adjustments are most often made quarterly. Some plans also provide that adjustments will be made in the wages, only after a minimum change in the index. Of 1,601 agreements analysed, 332 or 20% had such escalator clauses. The number of workers covered was 120,241.

HOUSE FINANCING

A unique plan to bolster Canada's faltering housing program has been developed by a group of lumbermen and others vitally interested in home building. The main points are:—

Formation of a company or building society.

100 millions in debentures to be sold yielding 3½ to 4%.

Use the money to buy houses and grant mortgages to people who would then buy houses from the company.

Mortgage rate 5%.

Federal government would collect ½% of the 5% interest as income tax.

C. & M. ROUND-UP

An alternative plan would have the provincial and local governments guarantee each mortgage until 20% of the total principal and interest payments have been made. The Federal government would give a similar guarantee down to 60% of the total. About $\frac{1}{4}\%$ out of the 5% interest would be set aside as a reserve against losses. Extent of government guarantees would be reduced as the reserves increased. Debentures to sell at 4%.

It is proposed to manage the venture through Inter-provincial Building Credits Ltd.

There is no profit involved. The motive is simply the huge market for lumber and building material.

NORTHERN FUTURE

That vast section of Canada contained in the North West Territories and the Yukon is fast becoming a new treasure house of minerals and petroleum. A few interesting facts are:—

Area approximately $1\frac{1}{2}$ million sq. miles.

Population 25,000.

Average winter temperature 40 to 60 degrees F.

Average summer temperature 50 to 70 degrees F.

Growing season: 90-140 days.

Acreage suitable for agriculture: 160,000.

Minerals in evidence: lead, zinc, gold, silver, copper, tin, asbestos, uranium.

Oil permits being sought for 16 million acres around Great Slave Lake.

The defense angle of the Northland has in the past year caused much exploratory work. As a result of these government surveys the industrial possibilities of the cold Arctic Country is coming to the fore.

UTILITIES

The record of industrial and primary natural resource expansion is matched by that of the utility companies. In fact the one must go with the other. Major points in utilities expansion seem to be:—

One billion in capital expansion 1952 compared to 800 million in 1951 and 600 million in 1950 which were thought to be record years.

HYDRO

1951 — 881,250 h.p. brought into use, 1952-53 — 1,700,000 h.p. planned.

Power consumption 1939 — 18 billion k.w.h.

Power consumption 1951 — 51 billion k.w.h.

TRANSIT — URBAN AND INTER-URBAN

1939 — 600 million passengers carried.

1951 — 1,500 million passengers carried.

GAS

1939 — 48 billion cubic feet sold.

1951 — 94 billion cubic feet sold.

In 5-7 years 75% of the population will have gas available.

TELEPHONE

1951 — 100,000 new phones; orders for 76,000 on books at year end.

Current Articles of Interest to Industrial Accountants

ACCOUNTANTS

THE ACCOUNTANT IN INDUSTRY — The Sixth International Congress on Accounting, 1952.

THE ACCOUNTANT IN PRACTICE AND IN PUBLIC SERVICE — The Sixth International Congress on Accounting, 1952.

ACCOUNTING

ACCOUNTING UNDER FACILITIES CONTRACTS, by C. H. O'Brien — N.A.C.A. Bulletin, June 1952, Sec. 1.

THE DETERMINATION OF BUSINESS INCOME IN TIMES OF RISING PRICES, by E. D. Wilkinson, F.P.A.N.Z. — First Annual Research Lecture of the New Zealand Society of Accountants, May 1952.

ADMINISTRATIVE EXPENSES

AN INFORMAL ACCOUNTING SYSTEM FOR ADMINISTRATIVE COSTS, by H. W. Wright, C.P.A. — The Journal of Accountancy, June 1952.

AUDITOR

AUDITING AND COSTING, by Jan Szary — The Chartered Accountant in Australia, March 1952.

BUDGETS AND BUDGETING

SEVEN BUDGETS MAKE A BUDGET, by W. S. Vaughn — N.A.C.A. Bulletin, June 1952, Sec. 1.

CAPITAL

ACCOUNTING REQUIREMENTS FOR ISSUES OF CAPITAL — The Sixth International Congress on Accounting, 1952.

CONTRACTS

ACCOUNTING UNDER FACILITIES CONTRACTS, by C. H. O'Brien — N.A.C.A. Bulletin, May 1952, Sec. 1.

COST ACCOUNTING

COST ACCOUNTING IN SOUND BUSINESS DECISIONS, by W. E. Arnstein—N.A.C.A. Bulletin, June 1952, Sec. 1.

COST ANALYSIS

SOME ASPECTS OF RISING COSTS, by Jan Szary — The Chartered Accountant in Australia, April 1952.

COST DATA

AUDITING AND COSTING, by Jan Szary — The Chartered Accountant in Australia, March 1952.

DISCLOSING PRODUCT AND PERIOD COSTS TO SALESMEN, by C. C. James — N.A.C.A. Bulletin, June 1952, Sec. 1.

ECONOMICS

THE DETERMINATION OF BUSINESS INCOME IN TIMES OF RISING PRICES, by E. D. Wilkinson, F.P.A.N.Z. — First Annual Research Lecture of the New Zealand Society of Accountants, May 1952.

FLUCTUATING PRICE LEVELS IN RELATION TO ACCOUNTS — The Sixth International Congress on Accounting, 1952.

EDUCATION AND TRAINING

TRAINING FOR ACCOUNTANCY, by Sir Harold Howitt, C.B.E., D.S.O., M.C., F.C.A. — The Chartered Accountant in Australia, March 1952.

CURRENT ARTICLES OF INTEREST

FINANCIAL STATEMENTS

THE "FUNDS" STATEMENT ON THE CASH BASIS, by John N. Myer — The N.Y. Certified Public Accountant, June 1952.

FORMS

A PRACTICAL APPROACH TO FORMS CONTROL, by P. M. Grieve — N.A.C.A. Bulletin, June 1952, Sec. 1.

TEHNIQUES FOR FORMS STUDY, by Roger Rush — N.A.C.A. Bulletin, June 1952, Sec. 1.

GRAPHS

GRAPHIC CONTROL REPORTING, by Norman N. Barish — The Controller, June 1952.

INDUSTRIAL RELATIONS

UNION-MANAGEMENT RELATIONS TO-DAY, by William J. Reilly — The Controller, June 1952.

INFLATION

SOME ASPECTS OF RISING COSTS, by Jan Szary — The Chartered Accountant in Australia, April 1952.

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MANAGEMENT NEEDS FACTS AND VICE VERSA, by S. F. Banas — N.A.C.A. Bulletin, June 1952, Sec. 1.

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SELLING AND DISTRIBUTION

THE ACCOUNTANT'S PART IN MARKET DEVELOPMENT, by J. S. Ebright — N.A.C.A. Bulletin, June 1952, Sec. 1.

SALES TERRITORY COST CONTROL, by Sebert Schneider — N.A.C.A. Bulletin, June 1952, Sec. 1.

STOCKS, STOCKHOLDERS, BROKERS

EVALUATION OF SHARES NOT QUOTED ON A STOCK EXCHANGE — PART I, by H. P. Glass, F.C.A. — The Federal Accountant, March 1952.

EVALUATION OF SHARES NOT QUOTED ON A STOCK EXCHANGE — PART II, by H. P. Glass, F.C.A. — The Federal Accountant, April 1952.

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H. P. Glass, F.C.A. — The Federal Accountant, May 1952.

TAXES

THE INCIDENCE OF TAXATION — The Sixth International Congress on Accounting,
1952.

SALES TAXATION IN PROVINCIAL AND MUNICIPAL FIELDS, by Roger H. Stanton —
The Canadian Chartered Accountant, June 1952.

TRUCKS AND TRUCKING

AN OUTLINE OF THE I.C.C. ACCOUNTING REGULATION, by Paul Safro, C.P.A. —
The N.Y. Certified Public Accountant, June 1952.

THE PROBLEMS OF THE MOTOR CARRIER ACCOUNTANT, by Joseph L. Mehr, C.P.A.—
The N.Y. Certified Public Accountant, June 1952.

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By C. RONALD JOLLY, C.A.

INTERNAL AUDITOR, LEVER BROS. CO. LTD.

The term "Industrial Accountant" is a varied and broad one and I would like to interpret it as referring to an accountant in any phase and at any level of industrial, commercial or financial accounting. The level which you have reached in your career, and it is a career, of accounting will govern whether you can implement the knowledge which you have gained by study, training, experience and meetings such as this, or merely use it as support for your suggestions for improvements.

The accountant, as a member of management, has many objectives to view which should be the result of his efforts. Of course his efforts alone cannot attain these objectives but should be the result of the co-ordination of all members of the management team and each and every employee of the concern. I believe that the objectives are the same no matter what type of business you may be engaged in and suggest that the following are the five major ones.

1. Operation of the business at a profit. Profit means sufficient earnings to absorb all staff activities and expenses and all Provincial and Dominion taxes which are more than a fair share of total income to-day. There must be left after these primary deductions, a balance for distribution to the shareholders or owners, as well as for retention in the business for strength and growth.

2. A sound financial position must be maintained, which means keeping the company solvent, not over-extended, with a strong credit standing and in a position to meet all of its obligations with a reserve of resources to take care of all emergencies.

3. Provision of sufficient capital for the maintenance of the company's assets and expansion of activities after giving consideration to its ability to expend the contemplated sums in the light of expected available cash earnings and other sources of capital. There is also the necessity for meeting competition or even more the need of being competitive at all times, with an aggressive and progressive program.

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4. Promotion of better relations with employees. This means creating loyalty by proving loyalty to the employees, the maintenance of adequate welfare, vacation and pension plans, together with fair rates of pay comparable with those paid by other organizations of similar size and character and particularly in the same territory. All the other objectives are dependent on attaining this one and the funds for such programmes must be provided.

5. The establishment of excellent public relations by educating the public to feel that the company performs a public service and is an asset to the community at large.

It is impossible for the company to even plan on reaching these objectives without the assistance of the accountant. How many times have glowing reports of success of a certain plan been swept away by the cold, hard figures of the accountant. Such should not be the main task of the accountant as he should be in the picture all the way.

Business in general seems to be again approaching the conditions in which the accountant can prove his mettle and in so doing escape from the category of a "necessary evil". The days of — the seller's market — the iniquitous cost plus system — charge all the market will bear — seem to have gone, at least for the present. It is time to take a new look at costs, products, staff, finances, public relations and all the other items which make or break a business. The accountant can be of invaluable help in this review. To use a comparison which I have used before, the accountant must be like a good character actor, able to assume the role of whatever department of the business he may be dealing with at the moment. It is only by fully understanding the thinking and requirements of these people that he can hope to provide them with the facts and figures they need to assist them in doing a better job. The accounting department is or it should be the greatest service department in the business.

There is one obstacle to what I have suggested and that is the stature of the accountant. He must not be satisfied to be merely a historian of the business. Rather he must be able to interpret that history, delve into and predict the future and be willing to "stick his neck out". At the same time he must not be addicted to reckless speculation but always keep common sense as the check-rein on all his actions. This is a lot to ask of the

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accountant, you may say, but I suggest that if you do not feel so inclined then the present business conditions are not a challenge to you but must be as frightening as the thought of an atomic bomb.

I would like you to consider some suggestions as to ways in which you can assist your company in improving its margins of profit and then to take a look at some of the tools available to help you in this job.

Purchasing

The accountant should be able to provide valuable assistance to his Purchasing Agent. Do you provide him with intelligent and simplified reports as to the actual yields obtained from the raw materials he has purchased? You must remember that this official, and many I mention later, are not accountants. Nothing is more ridiculous to a person than to receive a statement containing a maze of figures which he cannot understand.

You will never make an enemy of someone whom you help to do a better job. But you must be sure that your attitude while rendering this service is correct. Not that of knowing more about the job than the other person but rather that of being quite sincere in your effort to better the affairs of the company as a whole.

If you have proof that one material does a better job than another say so. But do not wait to point it out at the end of an accounting period. Make a special "press release" of the news. Give him the information so that he can use it before he makes the same unintentional mistake again.

Ensure that any terms provided for by the purchase order are strictly adhered to. See that the price, freight charges, quantity and quality meet the requirements. Remember that the purchasing department is competing in a market which may change hourly. Gear your cost department so as to provide required information "yesterday".

A mistake by your purchasing men can be very costly for your company. Their judgment in buying the multitude of items required by any company can influence your sales policy or even decide whether or not you have any sales. Costly buying can price your product right out of the market and completely ruin the plans of each and every department of the business to the extent of ruining the business.

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Manufacturing

This division of the company has always received most of the service rendered by the accountant. The technical people are dependent on the accountant for the preparation of the figures which will give the true picture of the achievements of the factory. The statements required in this case vary according to the type of business but they all must have one thing in common. They must provide all the information in the most concise and informative way possible.

The dependence of the factory on the accounting section has been aptly demonstrated in the recent strike of the office staff at the Ford plant.

It was admitted that the factory could only operate a very short time without the office, even without the picketing of the plant. Taken in the true sense the office is a production department. The material it processes belongs to that group which may be called semi-intangibles which the factory uses to produce things which actually have a physical existence somewhere. Last month's production record, next month's production schedule, the weight of materials unloaded from a freight car, the money that paid last week's wages; these are the output of the accountant and really consist of tools to make the exercise of intelligence convenient and practical.

In the same way in which improved machine tools make possible greater production, so improvements in the records and statistics supplied to the factory by the accountant make possible greater output with the accompanying lower costs and greater accuracy.

No company should ever reach the position where it feels that all the statements and reports prepared are the last word. You must make a complete and regular review of everything prepared in your department. I would like to suggest that you review all this material with the questioning attitude. Kipling could have been thinking of the accountant when he wrote:

"I keep six honest serving men
They taught me all I knew,
Their names are **WHAT** and
WHY and **WHEN**,
And **WHERE** and **HOW** and **WHO**."

WHAT are they prepared from, and **WHAT** purpose are they supposed to serve, **WHY** are they asked, **WHEN** are they

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prepared, **WHERE** are they prepared and **WHERE** do they go, **HOW** are they arrived at, and **WHO** receives them and uses them as a basis for major decisions? Those are the questions I would suggest you use and only logical answers will justify the continuance of the report.

It is impossible, at a time like this, to attempt to go into the details of the service which should be rendered to the factory but a few general comments will, I hope, start you thinking about the subject.

Production figures must give complete details comparing actual with required production. Lost time should be included and explained. A careful study of these reports should enable the experienced accountant to point out flaws in the production schedule and provide a basis for suggestions for improvement.

Cost studies are the guiding light for the production people. You are the experts in this field but are you sure that your cost reports are not prepared for other cost experts to admire rather than as a guide to the technician?

Correct yield and wastage figures are a necessity in reviewing the operations of the factory. These should be augmented by efficiency statements. But in all cases the preparation of these should be more than just the accumulation of figures. These are all dependent on the accuracy of the basic figures supplied by the factory, mostly by non-accountants. A complete review of all the reports compiled in the factory would be most interesting and constructive. Have you requested information in the plainest language? Are you sure that you are getting just what you thing you are? Interpretation of figures can be completely misleading.

I would like to mention only one particular item to illustrate my point. How complete are your inventory instructions? Many companies still attempt to take stock without first training the staff in this most important of all jobs. Examine your balance sheet some time to see how many figures contained therein depend on the accuracy of the inventory. There is much more to stock-taking than just counting nuts and bolts. Stock in-transit, work in progress and cut-offs are some of the things which upset the inventory picture. If you have the slightest doubt as to the accuracy of your inventory, then have great doubts as to the accuracy of all your reports which are based on that inventory.

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The preparation of a standard procedure for stock-taking is, in my opinion, a must for successful factory accounting. This should be supplemented, at each inventory date, by a detailed schedule showing location of stock, time counting to take place and accounting and factory personnel involved. All persons concerned should have a copy of these instructions and be informed that no deviation from the master plan are to be made without prior approval.

The accountant, then, must earnestly try to sell everyone he can on the elimination of unnecessary reports from his department, but equally earnestly protect the quality and accuracy of that material which he agrees to continue to produce. I think it can best be summed up by saying that the accountant should make it actually harder for the people running all other departments to make a mistake than to do things right.

Marketing

Accountants are always considered as the servants of the marketing people and justly so. But this service must be of the highest calibre and go far beyond the call of duty. Sales statistics, summaries and analysis of expenses, distribution costs, stock coverages and budget comparisons are the main interest of marketing management. What has been said in the former two instances applies equally here. What is required will depend on your local conditions but the applications of the six word test will again be the testing ground.

Probably more than any other department the marketing side of the business wants reports in a hurry. Price changes, product changes and new marketing policies require a lot of thought, common sense, and the figures to back up the decision. The success of any of the above can well depend on how the accountant does his job. I would even go so far as to suggest that many of these could, and should come about, at the suggestion of the accountant as a result of him giving careful study to his own files.

Now let us take a look at some of the tools which the accountant can use in his endeavours to attain the objectives outlined. It is impossible to cover them all but I would like to make some comments on a few of them.

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Budgets

The purpose of budgets is well known to all of you but sometimes a neutral person can raise some thoughts in our minds. If your company is not sold on the need of, the purpose of, and the service which can be rendered by budgets, you have a job ahead of you. Budgets are the most concise, illustrative, and informative way of showing the picture of the company for the past and the future. Many fail in their purpose because they are prepared by experts with little thought for the people who are to use them. Again simplicity should be the key-note. The accountant cannot sell the others in the business on the usefulness of his department if they cannot understand what he is doing.

Cost Statements

Nothing is more confusing to the outsider than a complicated cost statement. I wonder how many of you have been completely lost when looking at a cost statement prepared by someone else and many times in your publication. Such statements are not, in my opinion, worth the paper they are written on. All statesmen maintain that misunderstanding is causing most of the trouble in the world to-day. Make sure that you are not the cause of misunderstanding in your company and, as a result, the cause of many costly mistakes.

Reports

I have used this heading to include all the general statements and reports produced by your department. Too many people seem to think that the accountant should be judged by the quantity of paper work which he produces. The factory which was judged only on this basis would soon be in a terrible state. Quality must go hand in hand with quantity and is after all the deciding factor. The quality of all your work will govern the value of your work to your company and the degree of your personal success.

Methods

This is a new tool which is being made use of by many companies. If it is new to you I would suggest that you find out something about it. Do not try to do this in a few minutes. After all you did not learn all you know about accounting overnight. Methods is a coming profession and is a full time job. I can best sum it up by saying that it is the careful application

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of the six questions to each and every job. After this comes the study of what to do to correct the faults found. The best manager is the one who spends most of his time planning the work but little of the actual work. Let a man skilled in the job of Methods help you in your task.

Public Relations

A review of the myriad statements published each year will, I think, quite clearly indicate that these have been prepared by and for management. One has only to read the comments of labour leaders to see how thoroughly business is co-operating with them by so confusing the results of the operations of the companies that the employees are quite justified in believing the absurd reports of high profits. A recent questionnaire circulated among university students in business courses showed that they had no proper perspective as to the normal relationship between profits and sales. The answers showed that their conception of normal profits ranged from 1% to 100% of sales, with the average around 25%.

Surely, it is the responsibility of the accountant to assist management in its public relations and where necessary to point out matters of presentation which lead to misconception. The following are a few of the suggestions we could make to management as means to this end.

1. Employees and shareholders be provided with a history of the development of the company.
2. Financial statements be prepared in very simple language with the use of pictures, graphs and charts such as the much used "pie-chart" which is easily understood.
3. Regular bulletins be issued on any new undertaking by the company.
4. It might be that a strong deterrent to strikes could be developed by seeing that this information reached the "power behind the throne"—the wives of the employees.

I feel that these are all of paramount importance as in most companies the number of employees is far in excess of the number of salesmen and there is no better salesman than a well-informed employee.

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Internal Audit

I have left this to the last so that I could not be accused of too much prejudice. This is another of the tools available to the accountant as an aid in his job. Internal auditing of the management type can be invaluable to you. By that I mean internal auditing which is concerned with management problems and works and reports at the top management level. This again is a full time job and a profession in itself and is becoming more and more to be looked on as a necessary part of the management team. This, however, is another story but I suggest it as food for thought when you return to your office.

I realize that I have not mentioned any of the words contained in the topic of this discussion. As the walrus said, "the time has come to think of many things."

So far I have attempted to do very little other than ask a series of questions. What better way is there to make people think about any problem than to ask questions? Most of your work is the result of questions asked of you. If we make so many items at our present cost how much profit will we have — if we sell at a new price what is the result? So it goes on day after day. Such is the way we all learned at school and such is the way in which we must train our employees.

It is impossible in such a diversified group as this to supply you with a set of rules as to how you can answer the challenge of decreasing margins of profits. What is that challenge? It is to do all in our power to ensure that those margins do not decrease but rather increase. That is the challenge that cannot be disposed of with one swoop of the pen. It is something that always has been and always will be the hoped-for result of our efforts.

May I attempt to summarize the thoughts which I have tried to express in all the foregoing remarks. Always maintain the questioning attitude. If anything will not pass a close questioning then its usefulness is doubtful. Do not let your personal feelings, personal prejudice or the fact that it has always been done this way, influence your decision. Strive at all times for simplicity. Never feel that it is bad on your part to write down to your reader. Much better to do that than to have him give up in disgust at his inability to understand you. If he can get the point that you are making then he feels that you are a very smart man to be able to say what you have just the way he would have said it himself.

To-Day's Picture of To-Morrow's Business

By CHARLES B. ALLEN, C.P.A.

BRANCH ACCOUNTANT, AMERICAN BRASS CO.

This article describes a method of projecting the *range* of possible monthly operating results, at operating levels up to capacity. This projection is useable for a future period of approximately six months, before revision becomes necessary. It does *not* forecast or budget actual profit or loss. Budgets, quotas, etc., when measured against this, will indicate expected net results if the goals are realized. But the principle purpose of projecting the *range* of operating results is to provide management with a picture of *all* possible results, and indicate the effect of major fluctuations in sales activity.

Basically the procedure followed herein is not new. A very similar approach is used in Section 2, pages 99-113 of the Cost Accountant's Handbook entitled "Profit Graphs". However, there are some differences in theory, terminology, and definition, which will be briefly mentioned as they arise.

Business Dynamics

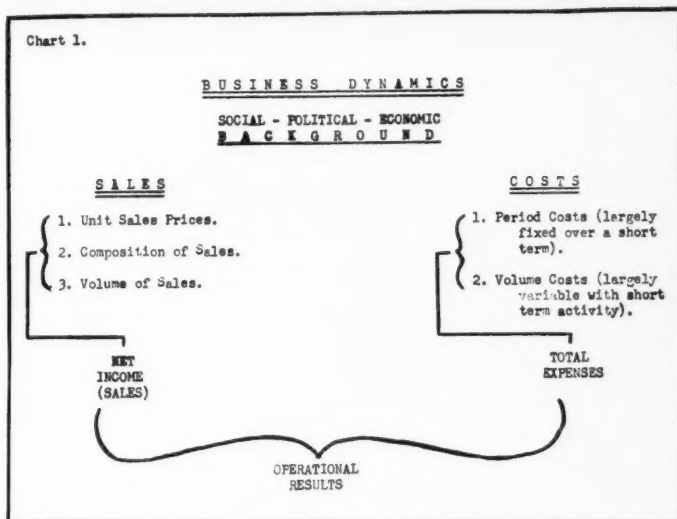
The major factors entering into the dynamics of business operation, and determining the final operational results, are shown in Chart 1. It is not feasible in a short paper to discuss the interaction of the many social, political, and economic forces that produce or change business activity. Instead, the effects of these forces as recorded in the financial history of the enterprise will be reviewed. The intent is to project future short term operating results based on past action, and yet be aware of these underlying changing forces.

Where it is known that past events of major importance will not recur, the historical record used for projection should be adjusted. If future events are reasonably definite, the basic data should recognize them.

But the principle attention will be devoted to what has been recorded as *income* and *outgo*, whence it came, and where it went. These two general divisions of business activity are Sales and Costs. Although a careful study of these two major elements is required, the subsidiary information that must be examined is fundamentally simple.

TO-DAY'S PICTURE OF TO-MORROW'S BUSINESS

Chart 1.



SALES

Unit Sales Prices

Unit sales prices should be accumulated for a period of not less than one year. If possible, the period selected should include all expected operating levels, and still be as current as possible. If there is more than one product or product sub-group included in the operating study and projection, the appropriate information should be procured. The relative contribution to sales income by each subdivision at all operating ranges should also be developed.

Where it is expected that prices may vary in the immediate future, these changes may be well within established price levels. Changes in the expected profit contributions of sub-groups to average sales price should be identified, and compared to the historical record. However, the short term price projection may be outside the historical range, due to expected cost fluctuation, competitive factors, and the like. This merely means that the extreme projected sales price range can be somewhat greater than previous experience.

Where sales dollars are the only useable sales statistics, the record should be accumulated for the past two years, by

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months. This information should be reviewed in a general manner with other sales history, in order to provide a projection background.

Composition of Sales

If there is more than one product line, or sub-group, the relative profit contribution should be reviewed. This is most effectively accomplished where standard costs can provide relative standard profits, based on previously established historical sales prices. In the absence of standard cost, other relative profitability measurements should be used — gross profit, sales less material costs, etc. — as may be available.

Any sales unit is useful if it shows comparatively close correlation to volume costs. Administrative procedure can be based on strange yardsticks. However, if sales statistics are only available on a dollar basis, a Profit/Volume ratio study can be made. This approach can compare directly or by ratio, either net profit or volume/variable costs to sales volume. By covering varying periods of operation, a *range* of profitability can be developed. A Profit/Volume ratio will rise or fall depending on changes in sales prices, variable costs, and composition of the sales mix.

Volume of Sales

Analysis of historical records of sales volume will often indicate capacity, and normal expected ranges of activity. Consideration of production schedules and changes in inventory will establish probable capacity and minimum operating levels. This may have to be adjusted further according to known or prospective changes in productive facilities over the immediate future. But the study should indicate:

- a. Maximum Capacity
- b. Operating ranges
 - Normal
 - Extreme

COSTS

Period Costs

These costs are largely those expenses which during any accounting period will remain definite in amount, within very narrow limits. Although they are fixed costs over a short term, they are more or less subject to control over an extended period

TO-DAY'S PICTURE OF TO-MORROW'S BUSINESS

of time — a year or longer. This type of expense is one that will not change materially, unless the phase of the business cycle is protracted.

Normally, these costs have no relation with volume, but accumulate and are concomitant with time. These are also called Fixed, Standby, or Shut-Down costs, but the term Period Costs appears to be more descriptive. These costs, plus Volume Costs are equivalent to Total Costs.

Determination of the Period Costs for a business enterprise is a necessary preliminary step to any operational analysis, either for an overall picture, or for product lines, departments, divisions, or other sub-groups of the activity. It should be emphasized that Period Costs are not necessarily "Overhead" costs, or any other general or cost accounting segregation that may be maintained. Many Period Costs may be classified as direct costs, although they are invariable under the normal range of probable operations.

Without attempting to be exhaustive, Period Costs may include all or part of the following:

- General and Administrative Salaries
- Selling Salaries
- Miscellaneous Salaries
- Hourly Rated Vacation Pay
- Hourly Rated Holiday Pay
- Payroll Taxes on above
- Pensions
- Compensation
- Welfare Insurance
- Property, Income, Franchise Taxes
- Fire and other necessary Insurance
- Dues and Donations
- Legal and Auditing
- Depreciation and Amortization
- Rentals and Royalties
- Telephone, Telegraph, Teletype
- Stationery, Postage, Office Supplies
- Travelling Expenses
- Miscellaneous Overhead Expenses of a maintenance nature

} where contractual

} where self-insured

If operational possibilities of only a part of the business entity is to be considered, it will be necessary to determine what

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share or allocation of Period Costs are included in the total costs for the division under consideration.

Volume Costs

If care is exercised in the establishing of Period Costs, a short cut analysis of operational possibilities can be prepared. A simplified worksheet to accomplish this is shown on Chart 2. Total Costs for each month in a period containing results for all expected operational levels of activity, can readily be calculated by deducting Net Income from Sales Income.

The actual Total Costs so obtained may have to be adjusted for exceptional items either past or future. If the total of Period Costs per month plus or minus any adjustments is deducted from Total Costs, the difference is the Volume Costs in each monthly period. It should be emphasized that the calculated Volume costs are only as accurate as the determination of Period Costs. However, the accuracy will ordinarily be sufficient for the end results of this study.

Initially, the detailed components of Volume Costs are not analyzed. The exact amounts of the various elements are not necessary for the purposes of an overall operational study. The procedure used to calculate these costs has, however, provided a control for detailed analysis if desired subsequently.

Volume Costs are those expenses related to the plant productive activity. Although intimately connected with operating levels, most of these costs will not vary in direct proportion to this activity. The relationship is a logarithmic curve rather than a straight line. In general, these costs increase with volume, but cost increases per unit successively decrease with such increased volume. With decreasing activity, total volume costs will be reduced, but not pro-rata.

Volume Costs include elements with a simple and direct relationship to activity. But many others vary directly, but at changing ratios for each operating level. These costs will be reduced to zero at zero capacity, as any "fixed" element should be included in Period Costs.

Just how these Volume Costs vary with operational activity must be determined. Standard or actual unit Volume Costs, or total monthly Volume Costs, are compared to monthly sales units or sales dollars, over a period that includes all expected operating levels. For the purposes of this study, sales and

SUMMARY WORKSHEET

Chart 2.

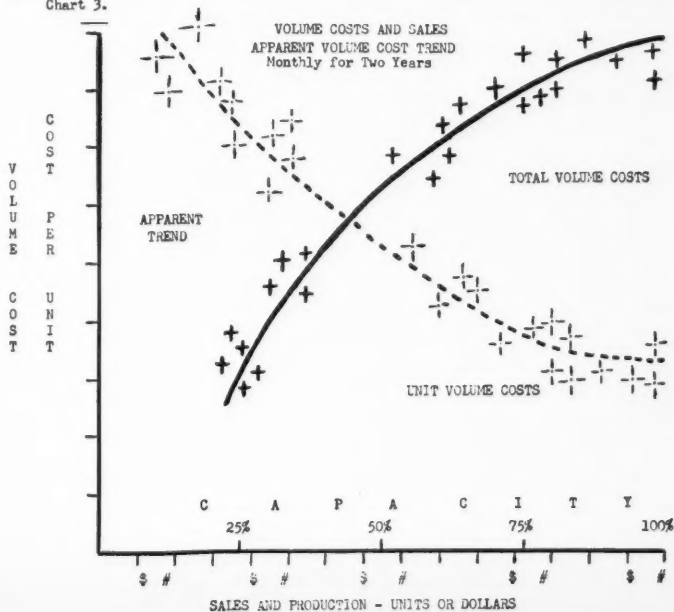
Analysis of Operational Possibilities

PERIOD	1 NET SALES INCOME	2 NET INCOME	3 TOTAL COSTS (1-2)	4 SPECIAL ADJUST.	5 PERIOD COSTS	6 VOLUME COSTS 3+4-5	7 P/V RATIO 6+1	8 SALES UNITS	9 UNIT VOLUME COSTS
1949									
Jan									
Feb									
Mar									
Apr									
May									
Jun									
Jul									
Aug									
Sep									
Oct									
Nov									
Dec									
1950									
Jan									
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Mar									
Apr									
May									
Jun									
Jul									
Aug									
Sep									
Oct									
Nov									
Dec									

FIGURES OMITTED

COLUMNS 1, 2, 4, 5, & 8 Supported by necessary detailed worksheets and analyses.

Chart 3.



COST AND MANAGEMENT

production in each month will be assumed equivalent, to eliminate problems arising from inventory fluctuation and pricing. One method of visualizing the trend of Volume Costs to Sales Volume, is through the scatter chart technique. This approach is shown on Chart 3.

The historical trend of Volume Costs can be determined either arbitrarily, by trial and error, or by the mathematical method of least squares. Trial and error usually gives a good enough approximation. The apparent Volume Costs trend must be reduced to probable cost at various capacity levels. These can be determined from inspection of the trend line, or by reducing the trend line to a formula.

For this study, it is assumed that unit or total Volume Costs for each 5% of capacity from 20% to 100% are established from the apparent trend line. This will give Volume Costs at seventeen (17) operating levels. Other levels can be readily interpolated from the finished study.

It should be emphasized that a truly variable relation for Volume Costs and Sales Volume has been established. This is a curved line relationship — and any operational charts constructed with this relationship must have curved cost and operating results lines instead of straight lines. This is a fundamental difference from traditional cost conceptions.

PROJECTED OPERATIONAL ANALYSIS

The basic data to project an operational analysis has now been accumulated. This can be summarized briefly as follows:

SALES 1. Probable range of unit sales prices, sales units and sales dollar volume.

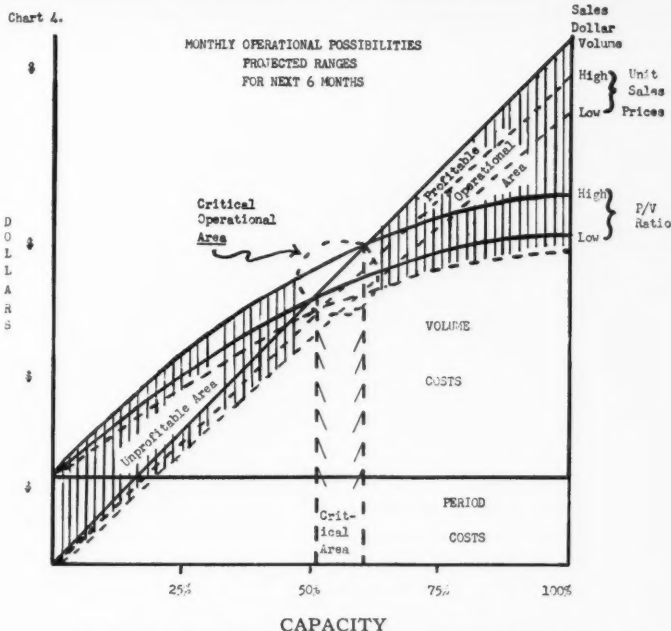
2. Relative profitability of product lines and sub-groups, or Profit/Volume ratio trend.

COSTS 1. Period Costs.

2. Volume Costs, and trend with changes in operating levels.

This can be shown graphically in the conventional method sometimes called a "Break Even" chart, but more properly an "Operational Possibilities" chart. The so-called break even "point" is not a stabilized dot on a chart — it is a dynamic financial position, which changes continually with every action or inaction taken by management, or forced upon it by outside political, social, or economic factors. This break even point is not something divorced from the operational structure. It is an inherent part of the business operation, and changes with it.

TO-DAY'S PICTURE OF TO-MORROW'S BUSINESS

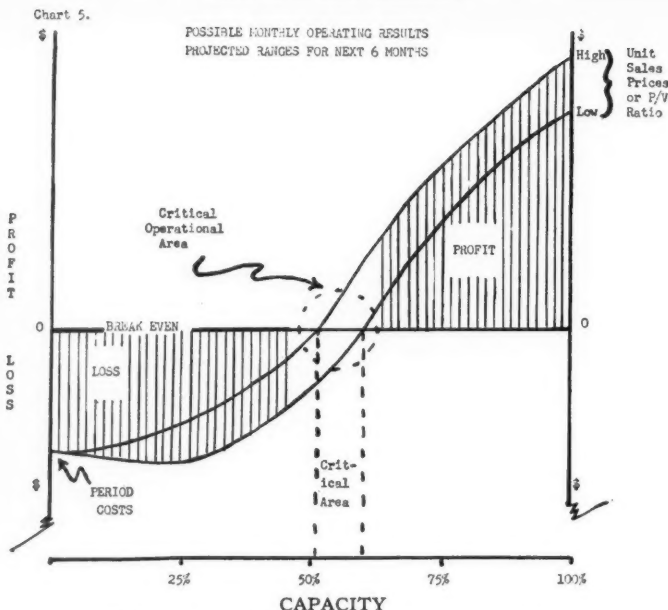


Moreover, the break even *point* is not so much one spot in the picture of possible operations, as it is a critical *area* of the activity level. This is the area where *income* may equal *outgo* — or unusual or unexpected factors may tip the scales in either direction.

A conventional picture of such operational possibilities is shown in Chart 4. This is really two charts. The straight line chart shows total sales income and cost ranges based on varying Profit/Volume ratio (where sales units do not exist). The Flexible vertical distance between Sales and Cost is the operating range for the activity level. The superimposed dotted line chart shows total sales dollars ranges based on fluctuating unit sales prices, with constant unit costs (sales units being known). This chart is drawn in this manner to illustrate that the procedure may be used for either type of activity.

A simpler picture of operational possibilities, one more understandable and useful for management, is shown in Chart 5. This graph is developed from the same data shown on Chart 4, except that only net profit or loss is plotted for the range of

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SALES AND PRODUCTION — UNITS OR DOLLARS

unit sales prices or Profit/Volume ratios, at each operating level. This presentation is the same whether or not sales units are identifiable.

The probable error in developing these operating possibilities is approximately plus or minus ten per cent. Used concurrently with a budget of sales, profit, or something similar, this chart should provide a useful tool for operational guidance within this limitation of accuracy. Of course, the completed chart should be checked against known results, to prove its construction.

From this chart it is easy for management to visualize short term operating possibilities and obtain a measure of future guidance. If a monthly sales projection is available, the estimated net profit or loss can be readily computed. If a net profit goal has been established, the necessary sales income and composition is apparent at once. The critical operational area stands out on the chart as an advance warning of economically dangerous waters. A comprehensive operational map has been furnished management in a very simplified manner, but with complete coverage.

« STUDENT SECTION »

GENERAL ACCOUNTING

Comments by J. D. CAMPBELL, C.A., R.I.A.

ACCOUNTING I EXAMINATION

1952

QUESTION 1 (10 marks)

On December 31st, 1951, the end of the annual fiscal period, what adjusting entries would be required for the following items:—

- (a) Interest accrued to date on notes receivable is \$8.33.
- (b) On December 31st, 1950, the prepaid insurance on merchandise was \$60. This policy expired on June 30th, 1951, and the amount in the prepaid insurance account was closed at that time to the insurance expense account. On July 1st, 1951, a new policy on merchandise stock was taken out for a period of one year, the premium being \$100. This amount was debited to the insurance expense account.
- (c) Salaries that have accrued since the last pay day prior to December 31st, amount to \$300. Of this amount \$100 applies to office 31st, amount to \$300. Of this amount \$100 applies to office employees and \$200 to store clerks.
- (d) James Smith is in business as an individual proprietor. He takes merchandise from the store for his personal use. The merchandise costs \$200 and he marked it to sell for \$300. No entry was made.
- (e) The sales for the current year are \$100,000. It has been estimated that the loss from Bad Debts will average 1% of sales.

SOLUTION TO QUESTION 1

(a) Accrued interest receivable	\$	8.33	
Interest income			\$ 8.33
To adjust for accrued interest on note receivable.			
(b) Prepaid insurance		50.00	
Insurance Expense			50.00
To adjust for prepaid insurance.			
(c) Office salaries		100.00	
Store wages		200.00	
Accrued wages payable			300.00
To record accrued wages payable.			
(d) Drawings — Smith		200.00	
Merchandise inventory or purchases			200.00
To record withdrawal of merchandise by Smith.			

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(e) Bad debts	1,000.00	
Provision for bad debts		1,000.00
To set up a provision for bad debts		
— 1% x \$100,000.00.		

COMMENTS

In the solution presented to this question many of the students failed to show a clear indication of knowledge as to the difference between a real and a nominal account and the relative effect which the entry would have on the profit or loss for the period. This was particularly so in regard to the adjustment for the accrued interest on notes receivable and the provision for bad debts, as well as the setting up of the accrued wages payable.

Some difference of opinion existed as to the treatment of the drawings by Smith and numerous entries were submitted which differed from that submitted above in the solution. Inasmuch as Smith is not in business to buy and sell goods to himself, the transaction of the withdrawal of merchandise by Smith would logically be credited as indicated rather than to sales. In all likelihood the amount of this item would not be significant enough to distort the picture but theoretically it should be credited to purchases.

QUESTION 2 (10 marks)

From the information given below you are required to prepare:

- (a) General Journal entries to correct errors or omissions before preparing a bank reconciliation statement of Brown and Brown, as at March 31st, 1952.
- (b) Bank reconciliation statement as at March 31st, 1952.
 - (1) Bank account balance per bank statement—overdraft \$1,010.
 - (2) The bank has charged the account of Brown and Brown with \$30 cheque in error on March 20th, but the error was not found or corrected by the bank until April 1st.
 - (3) Cheque issued in March and certified by bank prior to issue, but not cashed until April, \$50.
 - (4) Cheques issued in March not cashed until April, No. 310 — \$50.40, No. 324 — \$60.67.
 - (5) A deposit of \$800 entered in the cash receipts book on March 31st was not credited by the bank until April.
 - (6) A customer's (J. Brown) cheque of \$420.22 was entered in the cash book and on the March 15th deposit slip as \$430.22. The bank notified the company of the error, but no correction was made on the books.
 - (7) A bank debit memo dated March 31st for interest on bank loan to March 31st, has not yet been entered, \$25.30.

SOLUTION TO QUESTION 2

(a) Accounts receivable	\$	10.00	
Cash or bank			\$ 10.00
To correct error of entering cheque for			
\$430.22 instead of \$420.22.			
Bank interest on loan		25.30	

STUDENT SECTION

Cash or bank 25.30
To record interest on loan.

(b) **BROWN AND BROWN**
BANK RECONCILIATION STATEMENT AS AT
MARCH 31st, 1952

Balance per bank		\$1,010.00 (overdraft)
Add error of bank		30.00
		<hr/>
		\$ 980.00
Less o/s cheques No. 310	\$ 50.40	
No. 324	60.67	111.07
		<hr/>
		\$1,091.07 (overdraft)
Add o/s deposit		800.00
		<hr/>
Balance as per cash book (adjusted)		\$ 291.07 (overdraft)
		<hr/>
Marked o/s cheque \$50.00		

COMMENTS

The question specifically stated that general journal entries were to be presented to correct errors and omissions before preparing a bank reconciliation statement. In numerous cases where the entries were presented correctly an attempt was made in preparing the bank reconciliation to arrive at the balance as per the cash book (\$255.77 o/d) before giving effect to these entries.

A certain amount of difficulty was encountered by the student in dealing with the item of the overdraft and the relative effect which the items had on the overdraft. The item of the marked o/s cheque also caused considerable difficulty in that the student felt that this item must be taken into consideration in reconciling the balances.

Some students attempted to present adjusting entries for all the items entering into the bank reconciliation and failed to realize that certain of these represented items which had already been recorded on the company's books and were merely taken into the reconciliation since they had not yet been recorded on the bank's records.

ACCOUNTING II EXAMINATION 1952

QUESTION 1 (4 marks)

The Radio Collection Company bought as a temporary investment 100 shares of Rabbit Corporation, \$20 par common stock, at \$24 per share plus an over-all commission of \$9. It later sold all this stock at \$20 per share less \$10 over-all commissions and taxes.

Required: General Journal Entries to record the purchase and the sale.

SOLUTION TO QUESTION 1

Dr. Investments	\$2,409.00	
Cr. Bank		\$2,409.00

COST AND MANAGEMENT

Purchase 20 shares Rabbit Corporation
at \$24 per share plus commission \$9.
Invoice No. 4.

Dr. Bank	\$1,990.00	
Loss on sale of Investment	419.00	
Cr. Investments		\$2,409.00
Sale of 20 shares Rabbit Corporation at \$20 per share plus commission \$10. Invoice No. 20.		

COMMENTS

The major points which arose in the solutions presented to this question, outside of mechanical errors in calculation, were:

- (i) Treatment of the item of commission as a separate expense.
- (ii) The failure to interpret the term "over-all" in respect to commissions and to consider that the commission stated applied to each individual share.

The penalty imposed for (i) was very slight.

